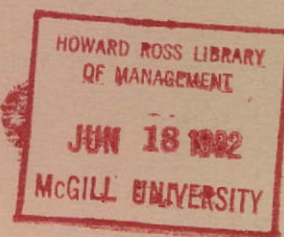


CONSOLIDATED CANADIAN FARADAY LIMITED



1981 ANNUAL REPORT



Consolidated Canadian Faraday Limited

Suite 1010
85 Richmond Street West,
Toronto, Ontario
M5H 2G1
(416) 362-6721

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of the Corporation will be held on Wednesday, the 30th day of June, 1982, at the hour of 9:00 o'clock in the forenoon (Toronto time) or as soon thereafter as a quorum shall be present, in the University Room, 2nd Floor, North Wing, Park Plaza Hotel, 4 Avenue Road, Toronto, Ontario, for the following purposes:

- (a) To receive the annual report, the financial statements of the Corporation for the year ended December 31, 1981, and the report of the auditors thereof;
- (b) To elect directors;
- (c) To appoint auditors and authorize the directors to fix the auditors' remuneration; and
- (d) To transact such other business as may properly be brought before the meeting, or any adjournment thereof.

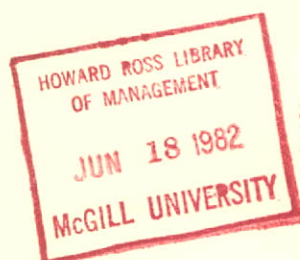
Copies of the annual report including the financial statements and the auditors' report, a form of proxy statement and information circular, accompany this notice.

If you cannot be present in person, please complete the enclosed proxy without delay. A business reply envelope is provided for your convenience.

DATED at Toronto, this 25th day of May, 1982.

By Order of the Board,

W. M. O'SHAUGHNESSY,
Secretary.



CONSOLIDATED CANADIAN FARADAY LIMITED

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JUNE 30th, 1982

PROXY STATEMENT AND INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Consolidated Canadian Faraday Limited (the "Corporation") to be used at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the attached notice of meeting.

The cost of preparing, assembling and mailing to shareholders the notice of the meeting, the Proxy Statement and Information Circular, and the form of proxy for the meeting will be borne by the Corporation. In addition to the solicitation of proxies by mail, officers, directors and regular employees of the Corporation may, without additional compensation, solicit proxies on behalf of the Board of Directors of the Corporation personally or by telephone. The Corporation will also pay to broker-dealers, banks or other record holders of shares of the Corporation their reasonable expenses in mailing copies of the foregoing material to beneficial owners of shares.

The annual report of the Corporation for its year ended December 31, 1981, containing certified financial statements, is being mailed to the Corporation's shareholders with this statement. The mailing date of the Proxy Statement and Information Circular will be on or about June 2nd, 1982.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are officers of the Corporation. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT HIM AT THE MEETING MAY DO SO EITHER BY INSERTING SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY AND, IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE SECRETARY OF THE CORPORATION OR THE CHAIRMAN OF THE MEETING.

Under the provisions of The Business Corporations Act (Ontario), a shareholder giving a proxy has power to revoke it. The following is the revocation procedure prescribed in Section 114(4) of The Business Corporations Act (Ontario):

"In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a body corporate, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting, or adjournment thereof and upon either of such deposits the proxy is revoked."

The shares represented by the enclosed form of proxy will be voted and, where a choice with respect to any matter to be acted upon has been specified in the proxy, the shares will, subject to Section 119 of The Business Corporations Act (Ontario), where applicable, be voted in accordance with the specifications so made. Section 119 provides as follows:

"The chairman at a meeting has the right not to conduct a vote by way of ballot on any matter or group of matters in connection with which the form of proxy has provided a means whereby the person whose proxy is solicited may specify how such person wishes the shares registered in his name to be voted unless:

- (a) a poll is demanded by any shareholder present at the meeting in person or represented thereat by proxy; or

Conwest indirectly owns 35% of the Corporation and consequently many of the companies within the Conwest Group of companies are related parties. As part of normal business operations the Corporation makes extensive use of Conwest's management and technical services. The Corporation absorbs 20% of the cost of such services which in 1981 amounted to \$164,596, excluding salaries referred to above.

The Corporation has purchased an annuity on the life of Mr. Campbell for the sum of \$50,000, which annuity will be transferred to him or his estate on the earlier of his death or his reaching age 65. So long as he remains as Chairman of the Board, he will be paid a salary of \$25,000 per annum.

In 1981, the Corporation lent Mr. Coolican \$150,000.00 to purchase a house for his own use. The maximum amount of such indebtedness during fiscal 1981 was \$150,000.00 of which \$145,000.00 remains outstanding. The loan is fully secured, is non-interest bearing and repayable at the rate of \$5,000.00 per annum.

INTEREST OF MANAGEMENT IN MATERIAL TRANSACTIONS

Effective January 1, 1982 the Corporation acquired a 25% interest in Conwest Petroleum Corporation, a company created for the purpose of acquiring all of the oil and gas interests of the Corporation, Conwest Exploration Company Limited and International Mogul Mines Limited, a 90% subsidiary of Conwest and the beneficial owner of 39% of the Corporation, for \$9,015,000. As part of the purchase the Corporation sold its oil and gas interests and certain of its other related assets to Conwest Petroleum. These assets, which had a carrying value of \$249,000 at December 31, 1981, were sold for \$1,315,000. The balance of the purchase price was satisfied by a cash subscription of \$7,700,000. As consideration for this investment the Corporation received the following:

25% interest in the shares of Conwest Petroleum represented by:

25,000 non-voting, redeemable preference shares with a par value of \$80 each and a redemption price of \$80 each	\$2,000,000
250,000 common shares with a par value of \$10 each	6,925,000
	<u>8,925,000</u>
Liabilities of the Corporation assumed by Conwest Petroleum	12,000
Demand promissory note at bank prime + 1%, taken back from Conwest Petroleum	78,000
	<u>\$9,015,000</u>

The remaining 75% of Conwest Petroleum is owned by Conwest, 10%, and International Mogul 65%. These interests were acquired by the respective companies in consideration of the transfer of their oil and gas interests, and certain of their other related assets.

The Conwest assets, which had an original cost of \$4,970,000, were transferred at their original cost. The assets of Mogul were transferred for an amount of \$37,202,000. Certain of the Mogul assets which were acquired in 1977 and 1978 were transferred at amounts based upon an independent appraisal as at January 1, 1982 (viz. \$15,324,000). The remainder of the Mogul assets acquired subsequent to 1978 and which had an original cost of \$21,653,000 were transferred either on the basis of their original cost or, in certain instances, at amounts based upon the independent appraisal for a total of \$21,878,000. The purchase price was satisfied as follows:

75,000 non-voting, redeemable preference shares with a par value of \$10 and a redemption price of \$80 each	\$ 6,000,000
750,000 common shares with a par value of \$10 each	20,775,000
Liabilities of Mogul relating to the oil and gas assets assumed by Conwest Petroleum	2,260,000
Demand promissory note at bank prime + 1%, taken back from Conwest Petroleum, \$8,000,000 of which was repaid by March 31, 1982	13,137,000
	<u>\$42,172,000</u>

Messrs. J. C. Lamacraft and C. C. Coolican are officers and directors of Conwest and International Mogul. Mr. W. C. Campbell is a director of Conwest. This transaction was approved by an independent quorum at a meeting of the Corporation's Board of Directors at which time the interest of Messrs. Lamacraft, Coolican and Campbell were disclosed.

Name	Principal Occupation and Age	Common Shares Beneficially Owned, Directly or Indirectly, as of May 25, 1982 (1)	Became Director of Corporation or of Predecessor Company
Robert D. H. Thorburn	President, Venus Custom Products Limited (custom packaging). Vice-President and Director, Gardiner Watson Ltd., members of the Toronto Stock Exchange, 1976 to 1979. (42)	—	1978
Michael Zurowski (2)	Exploration Manager, Conwest Exploration Company Limited. Since 1980. Prior to that, from 1968 to 1980 Exploration Manager for International Mogul Mines Limited. (54)	—	1982

(1) The number of shares shown is based upon information furnished by each person named.

(2) Member of the Audit Committee.

The Business Corporations Act (Ontario) requires that the Corporation have an Audit Committee of not fewer than three directors, a majority of the members of which may not be officers or employees of the Corporation or an affiliate and which is to review the financial statements of the Corporation before submission to the full Board. The Committee may require the auditor of the Corporation to appear before it; the auditor also has the right to be heard at any meeting of the Audit Committee. The Audit Committee also systematically reviews the Corporation's accounting and financial controls and reporting procedures and reports its findings to the full Board of Directors. The members of the Audit Committee are as indicated above.

During 1981 two meetings of the Board of Directors and one meeting of the Audit Committee were held. All incumbent directors attended the meetings of the Board and committees of which they were members except Mr. Thorburn who missed one meeting. The Corporation does not have a nominating nor a compensation committee.

In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed (or for substitute nominees in the event of contingencies not known at present) who will serve until the next Annual Meeting of Shareholders and until their successors are elected and qualify.

REMUNERATION OF AND OTHER TRANSACTIONS WITH DIRECTORS AND OFFICERS

During 1981 no officer or director received aggregate remuneration from the Corporation or any affiliated company in excess of \$50,000. No pension benefits were paid to the officers and directors of the Corporation.

The following table shows all cash and cash equivalent remunerations, vested or contingent, that has been paid by the Corporation for services in all capacities during its fiscal year ended December 31, 1981, to all officers and directors as a group who were directors and officers of the Corporation at any time during such fiscal year.

Number of Persons in Group	Capacities in which Remuneration was Received	Aggregate Remuneration	Contingent Forms of Remuneration
Directors (7)	Directors	\$ 19,900	See Below
Five (5) Senior Officers	Officers	\$120,460	
Eleven (11) Officers and Directors as a group	Officers and Directors	\$141,608	

Central Patricia Limited pays substantially all of the remuneration of directors and senior officers of certain related companies and is reimbursed by these companies. During the financial year ended December 31, 1981 the Corporation's share of the amount so paid was \$66,308, all of which is included in the total shown above.

During 1981 Day, Wilson, Campbell, in which firm Mr. Campbell is a partner, received legal fees from the Corporation and affiliated corporations in the amount of \$11,770 which amount is not included in the above table.

(b) proxies requiring that the shares represented thereby be voted against what would otherwise be the decision of the meeting in relation to such matters or group of matters total more than 5 per cent of all the voting rights attaching to all the shares entitled to vote and be represented at the meeting."

Subject to the foregoing voting at the meeting will be conducted by ballot.

IF THERE IS NO CHOICE OR DIRECTION GIVEN AS TO VOTING, SHARES WILL BE VOTED IN FAVOUR OF THE RESOLUTIONS BEFORE THE MEETING. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. As of the date hereof, the Board of Directors of the Corporation does not know of any such amendment, variation or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Holders of record of common stock as of May 25th, 1982, are entitled to notice of the meeting and holders of record at the date of the meeting, to vote at the meeting. There are 3,568,800 shares of common stock outstanding, each of which is entitled to one vote.

International Mogul Mines Limited, 85 Richmond Street West, Toronto, Ontario, beneficially owning 1,397,970 shares or 39% of the issued capital is the only person to the knowledge of the directors and officers who owns of record or beneficially, directly or indirectly, more than 5% of the outstanding shares of common stock. The Corporation understands that Conwest Exploration Company Limited ("Conwest") owns 90% of the outstanding voting shares of International Mogul Mines Limited.

The following table indicates the shares of common stock of the Corporation beneficially owned by all directors and officers of the Corporation as a group:

Title of Class	Amount Beneficially Owned	% of Class
Common Stock	33,300 shares	.94

ELECTION OF DIRECTORS

The Board consists of seven directors who are elected annually. The persons named in the enclosed form of proxy intend to vote, unless otherwise instructed, for the election of the nominees, listed below. If for any presently unforeseen reason any nominee becomes unavailable for election, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.

Name	Principal Occupation and Age	Common Shares Beneficially Owned, Directly or Indirectly, as of May 25, 1982 (1)	Became Director of Corporation or of Predecessor Company
William Clarke Campbell (2)	Chairman of the Board. Member of the firm of Day, Wilson, Campbell (Barristers and Solicitors), which firm has been general counsel of the Corporation since its inception by Letters Patent of Amalgamation dated May 4, 1967, and will continue so to act in 1982. (63)	12,400	1961
John C. Lamacraft	President of the Corporation. President of Conwest since April, 1979 and President of International Mogul Mines Limited since September, 1977. Has held various executive positions with the Conwest group since 1971. (40)	—	1975
Jules Loeb	General Manager of Falcon Investment Ltd. (Real Estate development company). (64)	20,900	1967
Howard Alfred Masson (2)	Mining Executive; self-employed. (74)	—	1970
Colin C. Coolican	Executive Vice-President of the Corporation since 1980. For the five years prior to 1980 he was a partner of McCarthy and McCarthy, Barristers and Solicitors. (38)	—	1980

APPOINTMENT OF AUDITORS

Thorne Riddell and its predecessor firms have been auditors of the Corporation since its inception, and were auditors of the predecessor companies and accordingly have acted as the Corporation's principal accountant. A representative of Thorne Riddell is expected to be present at the Annual Meeting. In addition to the auditors' rights referred to above in connection with the Audit Committee, the auditor of the Corporation is entitled to attend and be heard at any meeting of the directors on matters related to the auditors' duties, as well as any meeting of shareholders on any part of the business of the meeting that concerns the auditor. If present at the shareholders' meeting, the auditor is also obliged to answer inquiries concerning the basis for the opinion set forth in the auditors' report to the shareholders on the Corporation's financial statements.

The vote necessary for the appointment of the auditors is a majority of the vote cast at the meeting.

Unless otherwise instructed, proxies which are received pursuant to this solicitation will be voted for the appointment of Thorne Riddell as auditors of the Corporation at such remuneration as the directors may fix.

SHAREHOLDER PROPOSALS FOR 1983 ANNUAL MEETING

To be considered for presentation to the Annual Meeting of Stockholders to be held in 1983, a stockholder proposal must be received at the offices of the Corporation not later than February 14, 1983.

OTHER BUSINESS

The Board of Directors does not know of any other matters that may come before the meeting. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if amendments or variations in the matters identified in the notice of meeting or any other matter should properly come before the meeting the shares represented by the form of proxy will be voted upon such other matters in accordance with the best judgment of the named proxy.

By Order of the Board of Directors,

W. M. O'Shaughnessy,
Secretary.

Toronto, Canada
May 25th, 1982

Consolidated Canadian Faraday Limited

Suite 1010,
85 Richmond Street West,
Toronto, Ontario M5H 2G1

PROXY THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints JOHN C. LAMACRAFT, or him failing, W. C. CAMPBELL, or, the proxy of the undersigned to attend the Annual Meeting of Shareholders of Consolidated Canadian Faraday Limited, to be held on June 30, 1982 and any adjournment thereof and to vote and otherwise act thereat for and on behalf and in the name of the undersigned on the following proposals referred to in the notice of meeting, and the undersigned hereby revokes all proxies heretofore given with reference to the said meeting.

1. Election of Directors
FOR all nominees listed below (except as marked to the contrary below) ☐
WITHHOLD AUTHORITY to vote for all nominees listed below ☐
(INSTRUCTION: To withhold authority to vote for any individual nominee strike a line through the nominee's name in the list below.)

W. C. Campbell	Jules Loeb	C. C. Coolican
J. C. Lamacraft	R. D. H. Thorburn	H.A. Masson
	M. Zurowski	
2. Proposal to Approve the Appointment of Thorne Riddell as the auditors of the Corporation.
FOR ☐ AGAINST ☐ ABSTAIN ☐
3. In their discretion, to vote upon such other business as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted for Proposals 1 and 2.

This proxy also confers authority for the above named to vote in his discretion with respect to amendments or variations to matters identified in the notice of meeting or other matters which may properly come before the meeting or any adjournment thereof.

DATED this day of, 1982.

.....
(signature of shareholder)

.....
(number of shares)

INSTRUCTIONS:

1. Shareholders are entitled to vote at the meeting either in person or by proxy. If you are unable to be present at the meeting, please complete, date, sign your name exactly as it appears on the form of proxy and return same in the enclosed envelope provided for this purpose. If the shareholder is a corporation the form of proxy must be duly signed under its corporate seal, or by an officer or attorney thereof duly authorized.
2. Each shareholder has the right to appoint a person to represent him at the meeting other than the persons specified above. Such right may be exercised by striking out the names of the specified persons and by inserting in the space provided the name of the person to be appointed, who need not be a shareholder. If there is no choice or direction given as to voting, shares will be voted in favour of the resolutions before the meeting.

McGill University
Management Library
1001 Sherbrooke Street West
Montreal, Quebec
Attention: Librarian

Directors:	W. Clarke Campbell, Member of the firm of Day, Wilson, Campbell Barristers and Solicitors
	Colin C. Coolican, Executive Vice-President Conwest Exploration Company Limited
	John C. Lamacraft, President and Chief Executive Officer Conwest Exploration Company Limited
	Jules Loeb, General Manager, Falcon Investments Limited
	Howard A. Masson, Mining Executive
	Robert D. H. Thorburn, President, Venus Custom Products Limited
	Michael Zurowski, Exploration Manager Conwest Exploration Company Limited
Officers:	W. Clarke Campbell, Chairman of the Board
	John C. Lamacraft, President and Chief Executive Officer
	Colin C. Coolican, Executive Vice-President
	James A. Kalman, Vice-President
	J. Andrew Patterson, Vice-President
	William M. O'Shaughnessy, Secretary-Treasurer
	John S. Adams, Assistant Secretary-Treasurer
Registrar and Transfer Agent:	Guaranty Trust Company of Canada Toronto, Ontario
Co-Transfer Agent:	Bank of Montreal Trust Company New York, N.Y.
Auditors:	Thorne Riddell Toronto, Ontario
Head Office:	Suite 1010, 85 Richmond Street West, Toronto, Ontario, M5H 2G1

TO THE SHAREHOLDERS

Your directors are pleased to present the Annual Report for the year ended December 31, 1981. Included are the financial statements of the Company and the Auditors' report for the fiscal period ending on that date. Also enclosed are notice of annual and general meeting, information circular and proxy statement and form of proxy.

Net income for the year ended December 31, 1981 amounted to \$2,212,000 or \$0.62 per share as compared to \$2,087,000 or \$0.58 per share in 1980. Despite achieving cost and grade control targets, operating margins and cash flow at the Madawaska Mine continued to sharply contract reflecting the persistence of poor fundamentals in the uranium market and the further deterioration in the uranium price. Net income was favourably affected by a substantial increase in interest income earned on the short-term investment of the Company's working capital which increased by approximately \$2,000,000 in 1981 to total \$10,900,000 at year end.

Since the Madawaska mine reopened in 1976, virtually the total mine output has been sold under long-term contract to AGIP, a state-owned Italian company. The Italian nuclear program which was planned to be a significant one has unfortunately not developed according to plan. Moreover, Italy has recently reached a formal decision to drastically curtail the overall scope of their nuclear energy program. Consequently, AGIP, the agency responsible for nuclear fuel procurement has no need for additional uranium concentrates, not only in the immediate future but for the foreseeable future. In light of these and other related circumstances, AGIP initiated termination of their obligations pursuant to the sales contract and the parties have agreed, subject to certain conditions, to a termination effective June 30, 1982.

Neither your Company nor Federal Resources Corporation, 51% co-venturer in the Madawaska mine, have the financial capacity to undertake or sustain a stockpile program pending market improvements. Prospects of finding a customer to replace AGIP are poor.

Your Company and Federal have therefore regretfully come to the decision that, unless a new sales contract can be secured at prices that would sustain the operation on a cash break-even basis, mining and milling be suspended in early July. The decision has also been reached that in any event the mine facilities will be maintained on a standby basis pending a recovery in the uranium market.

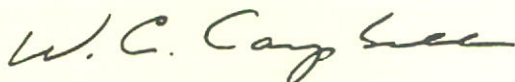
During the last several years of uncertainty as to the future of the Madawaska Mine, Faraday's policy has been to conserve working capital for investment in projects in the Canadian resource sector to expand and diversify the Company's earnings base. A big step in accomplishing this objective was achieved in early 1982 when your Company participated in the formation of Conwest Petroleum Corporation, a new private company formed to hold the various oil and gas interests and to be the ongoing oil and gas investment vehicle for all of the Conwest group of companies. Your Company has a 25% interest in Conwest Petroleum in consideration for contributing its interest in the Alderson shallow gas project and \$7,700,000 in cash. Conwest Petroleum has proven and probable reserves of 43.4 BCF of natural gas and 1,891,000 barrels of oil and natural gas liquids, a substantial exploratory and undeveloped land position and interests in both Canadian and U.S. exploration programs. Total cash flow from proven and probable reserves are forecast to be \$363,500,000 which, present valued at 15%, amounts to \$60,271,000 and at 20% amounts to \$43,100,000. Conwest Petroleum has an estimated annual cash flow of approximately \$5,000,000 which is forecast to double by 1986 and it has the financial capacity to take on substantial debt to finance further acquisitions: to this end, a \$25,000,000 line of credit is being established against its existing asset base. The principal objective in 1982 is to acquire substantial additional, solid, long-term producing reserves which will generate cash flow and which will have a favourable impact on earnings at the outset. The operations and assets of Conwest Petroleum are discussed in considerable detail elsewhere in this report.

1982 is a significant year for your Company. Faraday's operating mine, its 49% interest in the Madawaska Joint

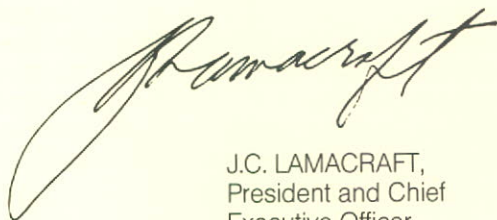
Venture, will in all likelihood be placed on a "care and maintenance" basis. Although market conditions in the uranium industry are to a large extent based on forecasts of uranium demand and supply, which in the past have changed rather dramatically over one to two year periods, the realistic prospects for resuming operations in Bancroft within the next two to three years are remote. The Directors wish to recognise the efforts of the staff and employees of the Madawaska Mine whose strong performance has enabled the mine-mill to continue operations up to the present time under difficult marketing conditions. Your Company also wishes to recognise the contribution of our co-venturer, Federal Resources Corporation of Salt Lake City, Utah.

Your Company has made a significant investment in the Canadian oil and gas sector through the Company's 25% shareholding in Conwest Petroleum Corporation. That company is well-positioned with no debt and a strong cash flow and reserve base, to aggressively pursue acquisition, development and exploration opportunities in the oil and gas sector. The investment in Conwest Petroleum will be the major source of earnings and asset growth for the foreseeable future.

On behalf of the Board



W. CLARKE CAMPBELL,
Chairman



J.C. LAMACRAFT,
President and Chief
Executive Officer

Toronto, Ontario
May 10, 1982

CONWEST PETROLEUM CORPORATION

Effective January 1, 1982, the oil and gas interests of Conwest Exploration Company Limited, International Mogul Mines Limited and Consolidated Canadian Faraday Limited were consolidated into Conwest Petroleum Corporation, a new private company. Conwest Petroleum is owned as to 10%, 65% and 25% by Conwest, Mogul and Faraday, respectively. The reasons for this re-organization were: to consolidate the various oil and gas interests within the Conwest Group, to simplify management and operations, and to create a discrete corporate entity for growth in the petroleum sector.

Conwest Petroleum has substantial producing, contracted reserves and current cash flow of approximately \$5 million which is forecast to double by 1986. Given the above, and the Company's debt free position, Conwest Petroleum has the financial capacity to take on debt to aggressively pursue the further expansion of its reserve base through merger and acquisition opportunities in the Canadian petroleum sector.

To this end, Conwest Petroleum is establishing a \$25 million bank line of credit based on the Company's existing assets; and further financial support, if required, would be available from the parent company. Management believes that the current uncertainties within the oil and gas industry and the economy, coupled with high interest rates, has resulted in an exceptionally attractive climate for acquisition opportunities. The principal objective in 1982 is to acquire substantial additional, solid, long-term producing reserves

which will generate current cash flow and which will have a favourable impact on earnings at the outset.

Through the Conwest exploration program, a substantial land position of approximately 80,000 net acres has been acquired over the past two years. Gas reserves discovered to date through the program, however, remain uncontracted. Until the gas contract situation is further clarified and a definitive timetable for placing reserves on production can be made, further delineation drilling and definition of shut-in reserves will be deferred. Where warranted, expiring lands and proven reserves will be protected through drilling.

Given the current surplus of shut-in gas and the industry's concentrated effort to focus exploration dollars on generally high-risk "new oil" prospects, it is difficult to justify many prospective exploration plays on the basis of fully-risked economics. This justification, however, is essential if the Company is to be successful in translating hydrocarbon reserves discovered through exploration into a cash and earnings base. Further, as stated earlier, the climate for acquisition of proven, producing properties is more attractive than at any time during the past four years. As a result, Conwest Petroleum's emphasis in 1982 will be the acquisition of long-life, proven contracted reserves, the generation of in-house exploration prospects, the acquisition through farm-ins of several high-potential exploration projects and the selective assembly of prospective lands.

Summary of Proven and Probable Reserves

(Working Interest Reserves)

Natural Gas Reserves (mmcf)

	1981	1980
Proven	28,160	21,900
Probable	15,260	7,163
Proven and Probable	43,420	29,063

Oil and Natural Gas Liquids (bbls)

Proven	1,040,000	144,000
Probable	851,000	—
Proven and Probable	1,891,000	144,000

Exploration and Development Expenditures

	1981	1980
Acquisition of Producing Assets	\$13,366,000	\$ 328,000
Land	945,000	1,635,000
Drilling costs	2,731,000	1,579,000
Geological and Geophysical	251,000	15,000
Plant and Equipment	673,000	184,000
Other	585,000	155,000
U.S. Exploration Program	976,000	—
	\$19,527,000	\$3,896,000

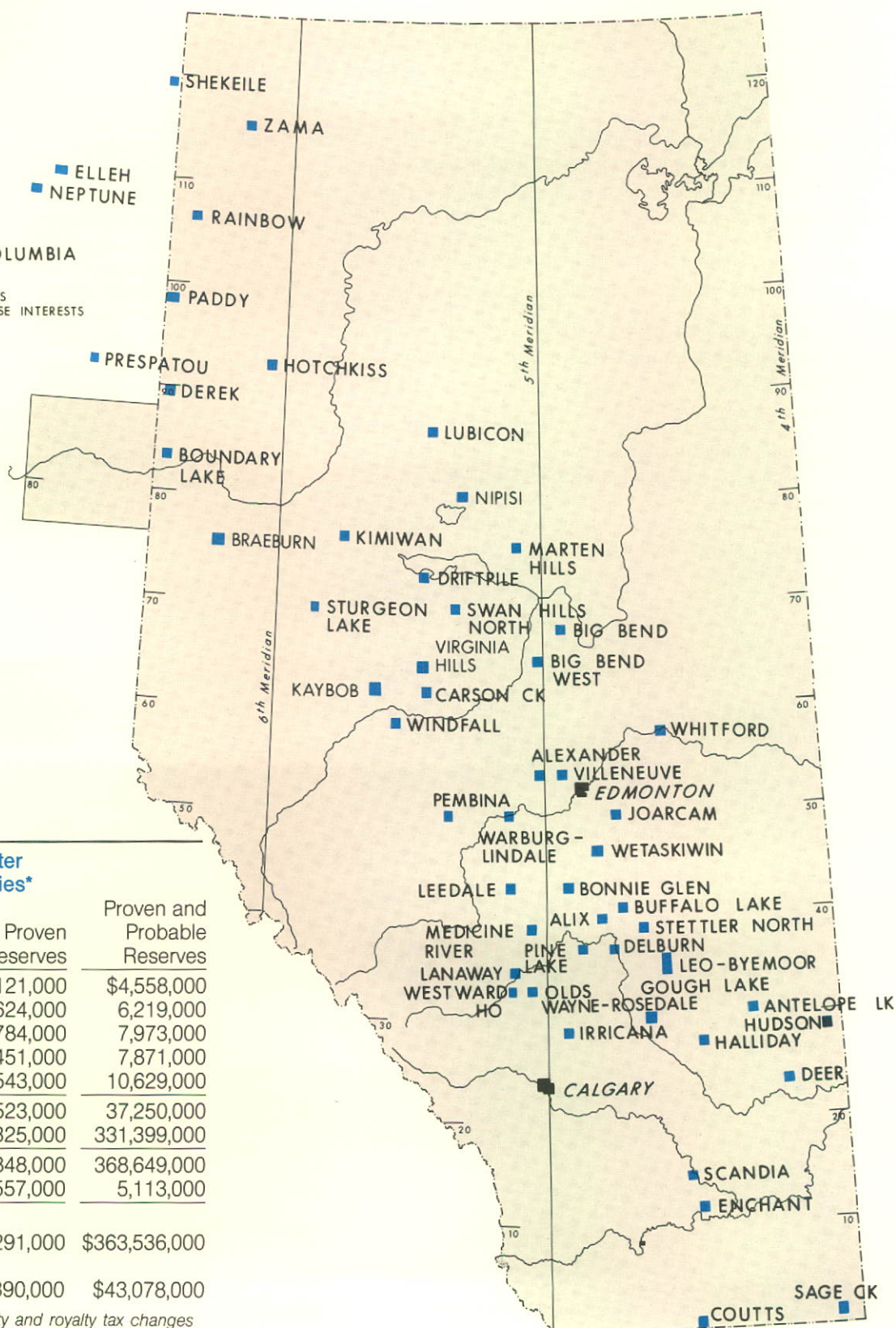
Forecast Net Cash Flow After Operating and Capital Expenditures and Royalties

	Undiscounted		Discounted at 15%	
	1981	1980	1981	1980
Proven Reserves	\$190,291,000	\$69,657,000	\$44,148,000	\$18,414,000
Probable Reserves	173,245,000	23,648,000	16,123,000	4,233,000
	\$363,536,000	\$93,305,000	\$60,271,000	\$22,647,000

PRINCIPAL AREAS OF ACTIVITY

ALBERTA - N.E. BRITISH COLUMBIA

■ AREAS IN WHICH CONWEST HOLDS CROWN FREEHOLD OR OTHER LEASE INTERESTS



Forecast Net Cash Flows After Operating Costs and Royalties*

	Proven Reserves	Proven and Probable Reserves
1982	\$4,121,000	\$4,558,000
1983	5,624,000	6,219,000
1984	5,784,000	7,973,000
1985	5,451,000	7,871,000
1986	8,543,000	10,629,000
Total to 1986	29,523,000	37,250,000
Remaining	162,325,000	331,399,000
Total	191,848,000	368,649,000
Capital Expenditures	1,557,000	5,113,000
Net Cash Flow after Capital Expenditures	\$190,291,000	\$363,536,000
Net cash Flow Discounted at 20%	\$33,390,000	\$43,078,000

* Does not incorporate recent royalty and royalty tax changes by Alberta Government.

PRODUCTION AND RESERVES

Total working interest gas production for the year was 739 million cubic feet which is comparable to 1980 production. The majority of the Company's production comes from wells in the Buffalo Lake, Gough Lake, Leo-Byemore and Stettler North areas of Central Alberta. Gas production will approximately double during 1982 as a result of significant producing gas reserves acquired at year end and three gas wells at Leo-Byemore being placed on production in late 1981 to supply gas to Pan-Alberta Gas under a new contract. In addition, gas wells in the Clear River and Delburne areas will be placed on production in late 1982 to supply gas to Pan-Alberta Gas.

Working interest oil production for the year was 8,750 barrels compared to 3,640 barrels in 1980. Oil and natural gas liquid production will increase to approximately 118,000 barrels in 1982 as a result of significant oil reserves acquired at year end.

Cash flow from oil and gas operations for the year was \$1,532,000 compared to \$1,839,000 in 1980. The decrease is a direct result of the lower level of prepayments received under the take or pay provisions of the Company's gas contracts and the recently introduced Petroleum and Gas Revenue Tax.

Proven plus probable gas reserves at December 31, 1981 were 43.4 billion cubic feet compared to 29.1 billion cubic feet at December 31, 1980, an increase of 49%. Proven plus probable oil reserves at December 31, 1981 were 1,891,000 barrels compared to 144,000 barrels at December 31, 1980, a thirteen-fold increase. This significant increase in reserves is attributable primarily to the acquisition of producing and shut-in reserves in the Braeburn, Nipisi, Kaybob and Penhold areas.

As shown on the attached forecast of future net cash flows from proven and proven and probable reserves, cash flow before capital expenditures in 1982 is expected to be approximately \$5 million and double this amount by 1986. Reserve and forecast future cash flow information are derived from an independent consultant's report prepared for the Company as at December 31, 1981. The recent changes to Alberta royalty rates and the royalty tax credit have not been incorporated into the cash flows shown, but these changes should generate an extra \$1.3 million to Conwest Petroleum during 1982 and 1983. Total cash flow to the end of 1986 is expected to be \$29.5 million in the proven case and \$37.25 million in the proven and probable case. Total future undiscounted cash flows after capital are forecast at \$190 million in the proven case and \$363.5 million in the proven and probable case. The discounted present value (at 20%) of the net cash flows from the proven and the proven and probable reserves has been estimated by independent consultants to be \$33.4 million and \$43.1 million, respectively.

Reserves have been assigned to 30 properties, of which approximately half are presently on production. These properties are located primarily in the province of Alberta.

Gough Lake/Leo-Byemore

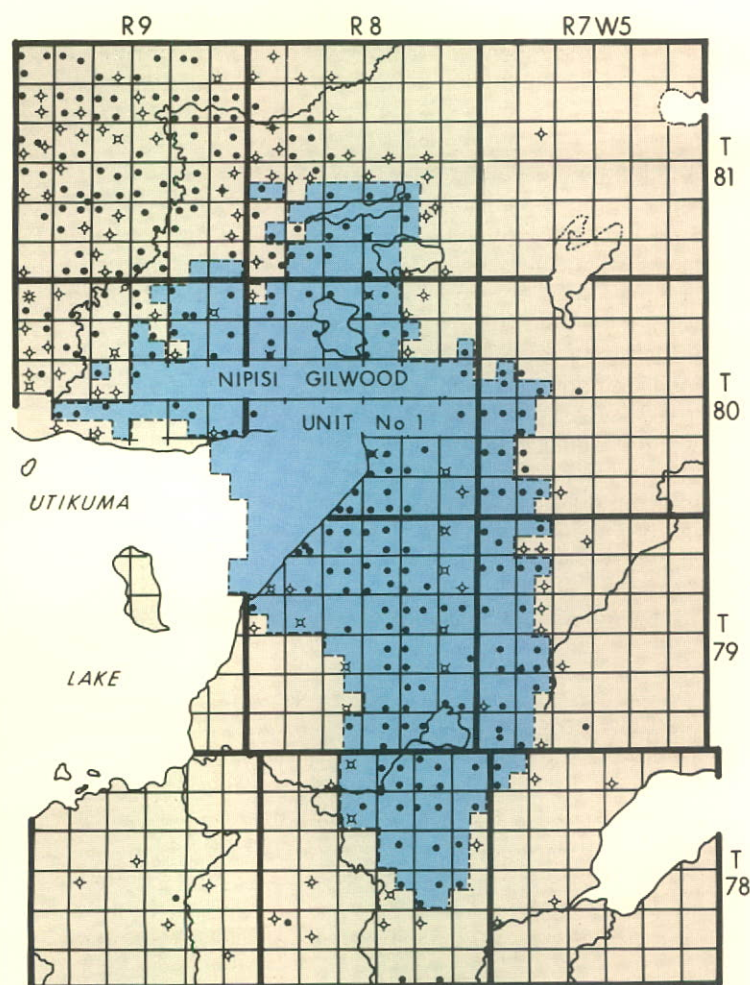
The Company has an interest in 18,440 acres (4,130 net acres) in the Gough Lake/Leo-Byemore area as well as an interest in seven producing wells (2.27 net wells), eight shut-in wells (1.76 net wells) and two gas plants. Three gas wells (1.07 net wells) in the area were placed on production in late 1981 to supply gas to Pan-Alberta Gas. The Company's working interest production from the area in 1981 was 1,455 barrels of oil and 301 million cubic feet of gas. It is anticipated that the Company's working interest share of production from the area during 1982 will be approximately 3,300 barrels of oil and natural gas liquids and 567 million cubic feet of gas. Conwest's working interest proved plus probable reserves in the area at December 31, 1981 were 40,000 barrels of oil and natural gas liquids and 9.63 billion cubic feet of gas.

Nipisi

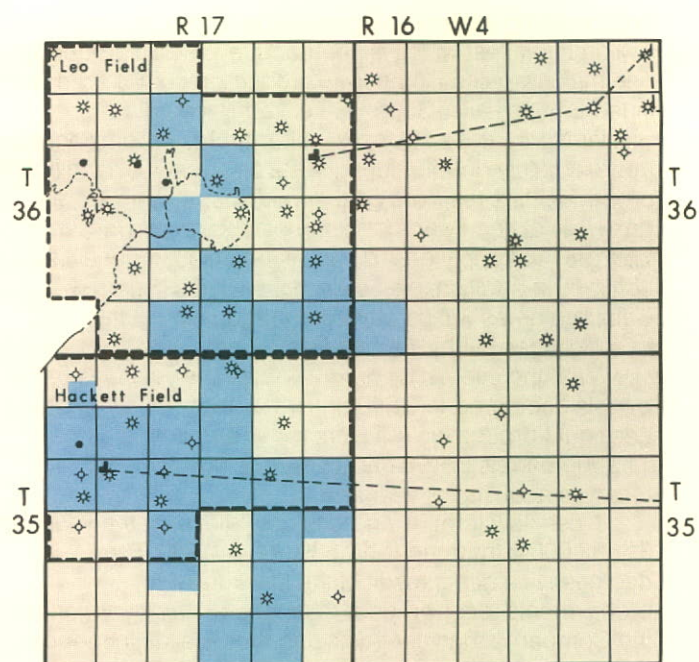
Effective December 31, 1981, the Company acquired a 0.8406779% interest in the Nipisi Gilwood Unit No. 1. It is anticipated that the Company's working interest share of production from the Unit during 1982 will be approximately 90,000 barrels of oil. The Company's working interest proved plus probable reserves in the area at December 31, 1981 were 1,102,000 barrels of oil and natural gas liquids. The Nipisi Unit is operated by Amoco Canada and is currently producing at capacity under a waterflood program. Studies are being undertaken with a view to increasing and accelerating oil production through an extensive infill drilling program which would bring the Unit to approximately 160 acre spacing.

Kaybob

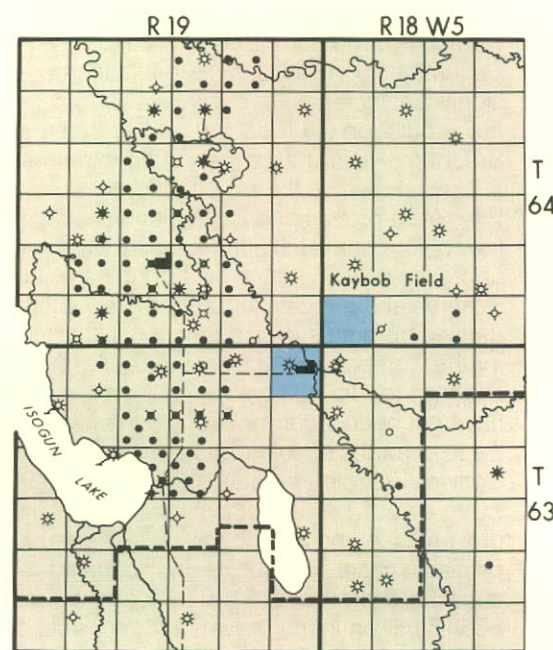
Effective December 31, 1981 the Company acquired certain oil and gas interests in the Kaybob field. It is anticipated that the Company's working interest share of production from these interests during 1982 will be approximately 1,300 barrels of oil and 204 million cubic feet of gas. The Company's working interest proved plus probable reserves in the area at December 31, 1981 were 4,800 barrels of oil and natural gas liquids and 8.3 billion cubic feet of gas.



NIPISI AREA



GOUGH LAKE & LEO-BYEMOOR AREAS



KAYBOB AREA

Summary of Operating Results*

	1981	1980 (restated)
Oil and Gas revenues	\$1,862,000	\$1,738,000
Deferred income under take or pay provision of gas contracts	95,000	360,000
	<u>1,957,000</u>	<u>2,098,000</u>
Operating expenses	425,000	259,000
	<u>\$1,532,000</u>	<u>\$1,839,000</u>

*Includes results of Alderson property acquired effective January 1, 1982.

- Gas Plant
- Gas Pipeline
- * Gas Well
- Oil Well
- ◇ Abandoned Well

OIL AND GAS EXPLORATION

During 1981, the Company expanded its oil and gas exploration activities. Exploration was primarily in Alberta, with some minor activity in British Columbia, Saskatchewan and the United States.

At year-end, the Company had participated in the drilling of 39 wells which resulted in 6 oil wells, 20 completed or potential gas wells and 13 abandonments, for a success ratio of 66%. Conwest continued to expand its land inventory through the farm-in route by participation at Crown land sales and by acquisition of assets. The land inventory increased by 32% to 82,572 net acres. In 1982, the Company will attempt to follow-up areas of successful activity as well as developing new exploration prospects. In addition, the Company will be participating in several new, high potential prospects which, if successful, could enhance the value of Conwest significantly.

Previously, the Company's objectives were to increase the exploration activity through land acquisition and by exploratory drilling. This was achieved primarily by participation in numerous joint venture operations. The approach enabled the Company to participate in a large spectrum of oil and gas ventures, spread the exploration risk and establish a presence within the oil industry. In the coming year, exploration philosophy will be modified to meet the new economic parameters placed on the industry by the National Energy Program and a greater emphasis will be placed on participation in Company generated exploration plays. Exploration activity will be focused towards projects which will attain an early cash flow. This will be achieved by participating and generating oil prospects and prospects which extend established oil and gas fields.

The Federal Provincial Energy Pricing Agreement has created an increased incentive for the discovery of "new oil" reserves. Statistically, less than 10% of the reserves discovered in Alberta are oil, the rest being gas. With the lack of new gas export markets, it is estimated that recently discovered gas reserves are facing a shut-in period of up to six years. When one takes into account the present value of future cash flows from gas discoveries, a long shut-in period renders the economics of drilling for gas unfavourable, unless the reserves discovered are much better than average. The Company will pursue and increase its emphasis on the exploration for medium to low risk oil and gas reserves with potential for early cash flow.

One of the primary areas of interest for future exploration efforts will be central and southern Alberta. This

mature area provides the potential for low risk, medium-sized reserves, high deliverability wells, multiple pay zones and access to numerous gas and oil production facilities. Examples of current prospects within this area are: WARBURG, DELBURNE, RICH and HALLIDAY. Targeted gas reserves range between 2 to 6 bcf/section and oil reserves vary from 50,000 to 150,000 STB per ¼ section recoverable.

The Company will pursue some higher risk exploration ventures such as the East Coast, where federal incentives greatly reduce the risk costs, and areas in northern Alberta and north-eastern British Columbia. These exploration projects may represent very significant returns on investment since the reserve potential is greater than that found in the more mature areas. The exploration costs in these areas are high as geological information must be supplemented by geophysical data to define the prospects and drilling costs are expensive. The Company will participate in these regions through joint ventures with other companies in an attempt to reduce the risk. The Company is presently participating in several projects such as the ELLEH, PRESPATOU and BOUCHER plays in British Columbia, the ZAMA, RAINBOW, PADDY and LUBICON plays in northern Alberta and the BANQUEREAU prospect on Canada's East Coast.

During 1981, the Company decided to expand its exploration activities into the United States. The objective, during this first year, was to establish relationships with experienced, reputable, working partners based in the United States and obtain exploration exposure without a large financial commitment. This was accomplished by committing to a 3.125% participation in a 19-well program in Texas and Louisiana operated by Cockrell Oil Corporation, a private company located in Houston, Texas. Four gas wells and one oil well have been confirmed, although testing and analysis of the wells is not yet complete. Cost of the program to Conwest is approximately \$1,000,000 and the Company expects to receive cash flow of about \$100,000 this year from the program. The Company has committed to participate in Cockrell Oil's 1982 program, increasing its interest to 6.25% in a 12-well program in Texas and Louisiana. The cost of the program is expected to be about double last year's. The number of wells in the program is less than last year's total; however, the prospective targets are all high-potential exploration plays averaging 25 bcf plus per prospect. Four of the wells are being drilled off-shore.

Braeburn

In late 1981, the Company purchased oil and gas interests in the Braeburn area of Alberta. Oil and gas has been discovered in the Halfway-Doig Triassic sands in two wells on the acreage. These wells are the Utexcan et al Braeburn 6-10-78-11W6M drilled in 1980 and the Utexcan et al Braeburn 13-11-78-11W6M drilled in 1979. The Company anticipates additional drilling activity in this area in 1982. The drilling will further delineate and extend the earlier discoveries and test the Montney formation which also has reservoir potential over these lands. The Company holds varying interests from 25% to 50% in 5,440 acres in the Braeburn lands.

Pine

In 1982, the Company was operator of Mogul et al Kaybob South 10-11-58-18WM. This well is a Gething gas well. The results have been encouraging and further evaluations are required to delineate the reserve potential of the project. The Company holds a 19.792% working interest in 5,120 acres in the Pine area. Additional exploration activity is planned for 1982.

Banquereau Prospect

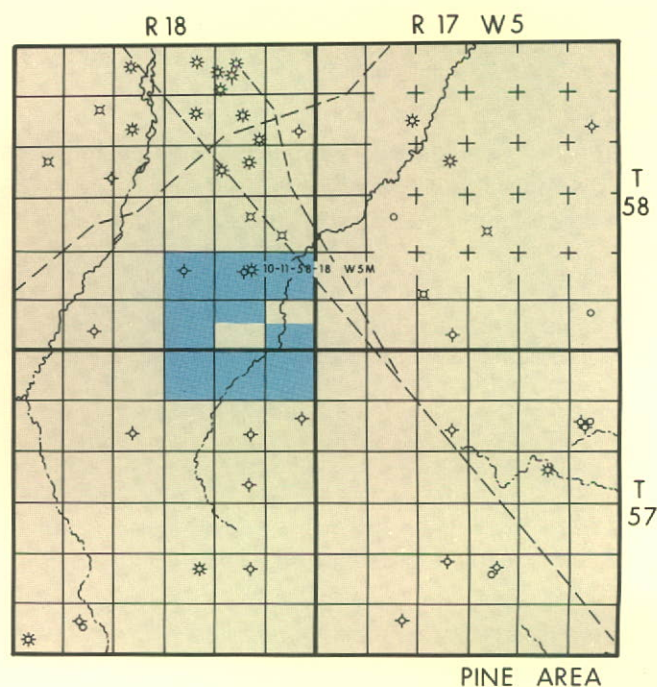
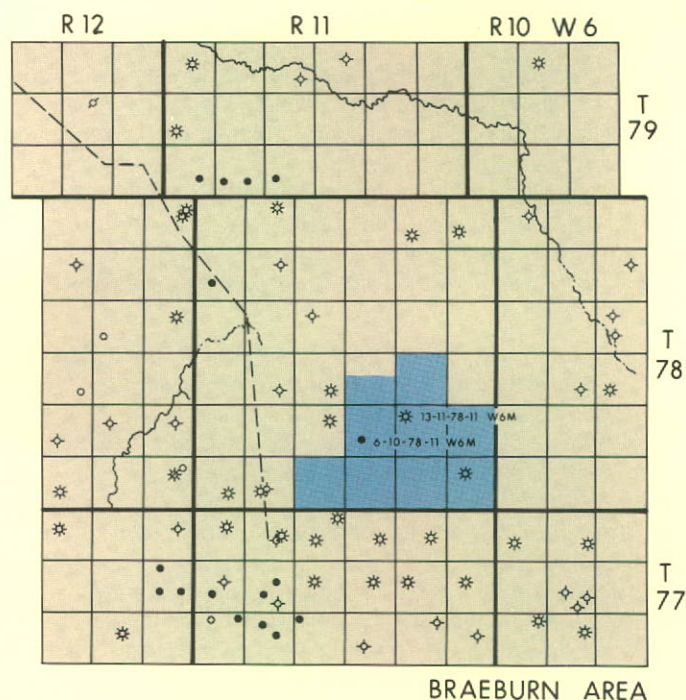
The Company has a 1% interest in a 366,000 acre oil and gas permit on the Scotian Shelf, approximately 56 miles northeast of Sable Island. The Petrocan et al Banquereau C-21 well commenced drilling on December 2, 1981. The well will be drilled to a total depth of 18,700 feet and will evaluate the lower Cretaceous and Jurassic sediments which have proven productive in the Sable Island, Venture and Hibernian areas.

Land Holdings at December 31, 1981

	1981	1980
Gross Acres	414,330	279,250
Net Acres	82,572	62,450

Drilling Activity

Wells	1981	1980
Oil	6	1
Gas	20	16
Dry	13	15
Total	39	32



MINING OPERATIONS

MADAWASKA MINE

Tonnage milled during the year was 389,306 tons at an average mill-head grade of 1.72 lbs. U_3O_8 per ton. Total production was 636,130 lbs. U_3O_8 in concentrates for an overall recovery of approximately 94.5%. These results were as budgeted and compare favourably to the prior year. The average price, net of discount, received from foreign and domestic sales during 1981 was \$36.25 per lb. U_3O_8 compared to \$40.53 per lb. in 1980 and \$43.57 in 1979.

Uranium prices have been in a steep decline since mid-1979. The NUEXCO exchange price, which is regarded as the spot price, has declined from the mid-1979 price of approximately \$43.25 U.S. to the current level of \$20.75 U.S. Despite this steep decline, there still appears to be market disequilibrium. NUEXCO currently estimates that world inventories as at January 1, 1982 total 426 million pounds of U_3O_8 equivalent, which represents more than five and one half years' projected forward consumption. Further, based on current supply-demand forecasts, inventories are expected to increase to 650 million pounds U_3O_8 equivalent by 1991, which is equivalent to six and one half years' forward consumption. It is clear from the above and from the several, low-cost Australian and Canadian producers committed to come into production in the near future, that the current uranium marketing situation is unstable. In addition, there will be further pressure on uranium prices due to inventory liquidation by utilities holding excess inventories. The expected oversupply will likely be alleviated over the next few years through a combination of:

- (1) deferment of new uranium projects
- (2) U.S. producers or other higher-cost producers purchasing utilities' inventories to supply existing contracts.
- (3) the replacement of high-cost producers by low-cost production facilities as contracts expire and inventories available on the spot market are consumed.

In the face of the uranium price uncertainty early in 1981, the Madawaska Mines Limited — Consolidated Canadian Faraday Joint Venture and AGIP negotiated a firm price of Cdn. \$32.75 per pound U_3O_8 for a part of 1981 and 1982 deliveries. Due to further deterioration in uranium prices and markets and AGIP's large uranium inventories, and to cancellations and deferrals in the Italian nuclear program, the Joint Venture's sales contract has been terminated effective June 30, 1982.

While efforts are being made to secure another market for production from the property, the present oversupply of uranium in the world market resulting from delays and cutbacks in nuclear reactor construction, make prospects

of achieving this objective difficult. Despite the strict cost and grade control measures achieved with the co-operation of a very efficient work force, Madawaska's current costs of production are in excess of the spot market price for uranium. If no further markets can be secured, operations at the mine will be suspended in early July. AGIP has agreed to accept production up to a specified limit to June 30, 1982 and to assist in defraying the costs of suspension of operations. Mine facilities will be maintained on a standby basis.

The employees' association and federal, provincial and local authorities, were notified of the contract termination and present suspension plans. The Joint Venture is working with all concerned to assist in easing the impact of the closure on the community of Bancroft and the surrounding area.

It is with sincere regret and out of necessity that this grave decision was reached by Madawaska Mines Limited and Consolidated Canadian Faraday Limited. The Madawaska mine-mill was the only Bancroft area uranium operation to restart production in 1976 out of several operations that were in production during the late 1950's and early 1960's. When operations were recommenced in 1976, a concerted effort was made to recruit local people to provide the bulk of the workforce. As a result, the operation was able to develop a loyal and efficient workforce which resulted in a consistent improvement in production and productivity during the past six years;

	Lbs. Produced	Cash Operating Costs/Lb. U_3O_8
1976	123,764	\$27.03
1977	440,753	\$27.90
1978	546,998	\$26.19
1979	605,533	\$28.77
1980	610,792	\$29.03
1981	636,130	\$29.22
1982 (Budget for first six months)	180,000	\$30.00
Total	<u>3,143,970</u>	

By its nature, the Bancroft uranium ores require extensive development work to establish proven reserves. The Madawaska reserves, although dependent on cut-off grades, which are a reflection of current operating costs and uranium prices, can reasonably be expected to last for a minimum of three years beyond the currently projected suspension date. If production is suspended, it would be the Joint Venture's intention to maintain the property on a standby basis until such time as the uranium markets justify re-opening the mine.

MINERAL EXPLORATION

Your Company continues to hold 25% of the Conwest Group's interest in various mineral exploration programs, the most significant of which is the Conwest Canadian Uranium Exploration Joint Venture. Your company holds a 25% interest in the Conwest Group's 12.5% operating interest and 3% gross production royalty interest in the Joint Venture lands, which include 278,680 acres on the edge of the Athabasca Basin in Saskatchewan and a further 105,500 acres in Quebec.

Eldorado Nuclear Limited, Manager of the Joint Venture program, continued to explore the Saskatchewan and Quebec Joint Venture lands. Expenditures in Saskatchewan totalled \$434,000 and work consisted of geological and surficial mapping, geophysical and geochemical surveys and 1,505 metres of diamond drilling in 22 holes. No uranium mineralization of significance was encountered.

Expenditures in Saskatchewan for 1982 by the Joint Venture are budgeted for \$225,000. At the end of 1981, Denison Mines Limited notified the Joint Venture that it was abandoning its right to earn an interest in a portion of the Saskatchewan Joint Venture lands. Additionally, the Saskatchewan Mining Development Corporation notified the Joint Venture partners that it would be withdrawing from a phase of the Saskatchewan Joint Venture, but would maintain its one-third participation in the balance of the Joint Venture lands in Saskatchewan.

Exploration work on the Quebec permits included prospecting, geological surveys and 3,198 metres of diamond drilling in 53 holes. Although some interesting uranium-copper mineralization was obtained, no economic deposit was outlined. Expenditures totalled \$1,500,000. A modest program of additional drilling and geological investigations is planned for 1982 at a cost of \$650,000.

Exploration of three of the Conwest Group's base metal properties in New Brunswick by Brunswick Mining and Smelting Corp. Ltd. continued during 1981. No important discoveries were made and exploration activities by Brunswick during 1982 will continue.

Your Company maintains a 24% interest in Hydra Explorations. Hydra holds interests in the Porcupine Peninsular property in the Timmins area which is leased to Pamour Porcupine Mines Limited and is subject to a production royalty. The other property held through 50% owned Johnsby Mines Limited is located in the Indin Lake area north of Yellowknife, N.W.T. Due to low gold prices, both properties were inactive during 1981.

The Company also holds a 3.6% indirect interest in Pelly River Mines Ltd. through its holdings in Rose Creek

Vangorda Mines Limited. Pelly River is controlled by Cryprus Anvil Mining Corporation. During 1981, Cryprus Anvil continued drilling the southeast extension of the Dy lead-zinc deposit where it extends into the Pelly River holdings. Three holes were completed for 2872 metres of drilling. Results established continuation of the deposit into the Pelly River property but grade and thickness were below expectations.

Your Company holds a 38% interest in Prairie Potash Mines Limited, a company which holds 16,000 acres of freehold potash leases in the Province of Manitoba. Negotiations were in progress to farm out these lands to International Minerals and Chemical Corporation (Canada) Limited. The negotiations were conducted on the basis that Prairie Potash would receive reimbursement of its costs to date and retain an overriding royalty on production. IMC Canada would undertake to carry out a drilling and pre-feasibility program. Negotiations with the Government of Manitoba have been deferred and together with current uncertainties in the economy, the project is on a hold basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Liquidity and Capital Resources

Working capital increased by \$2 million during 1981 to \$10.9 million and the current ratio increased from 5:1 to 11.5:1. Cash and short-term commercial paper amounted to \$8.6 million at year end.

For the fiscal year the Corporation's capital expenditures in the Madawaska Mine amounted to approximately \$86,000 and this figure will not be exceeded for 1982.

RESULT OF OPERATIONS

Summary

The following table summarizes the Corporation's consolidated net earnings for the years ended December 31, 1981, 1980, and 1979 (in thousands of dollars).

	1981	1980	1979
Revenue			
Resource	\$12,493	\$13,827	\$11,882
Interest and other	1,515	594	438
	<u>\$14,008</u>	<u>\$14,421</u>	<u>\$12,320</u>
Income from continuing operations before income taxes			
Resource	\$1,161	\$1,630	\$3,292
Interest and other	1,051	561	398
	2,212	2,191	3,690
Income from discontinued operations before income taxes	—	725	12
	2,212	2,916	3,702
Income taxes, net of extraordinary item in 1980	—	829	1,323
Consolidated net earnings	<u>\$2,212</u>	<u>\$2,087</u>	<u>\$2,379</u>

The foregoing reflects the Corporation's 49% share of the earnings of Madawaska Joint Venture which is the principal source of revenue.

Revenue

Revenue from concentrate sales of the Madawaska Joint Venture decreased approximately \$0.4 million from 1980 to the end of 1981. Due to the sagging uranium market, the price has been gradually declining since the latter part of the 1979. The price negotiated with AGIP for the first five months of 1981 was \$31.81 per pound, net of discount, and for the balance of the year \$32.75. This latter price will prevail up to June 30, 1982 at which time operations at Madawaska will be suspended. In 1980, revenue was increased through the sale of marketable securities and the sale of Farida Inc., a wholly owned subsidiary, the owner of an apartment complex in Fort Myers, Florida. In 1981 there was no revenue from similar sources, but this was offset by a marked increase in interest revenue, resulting from the high rates on short-term deposits and commercial paper.

Segment Operating Profits

Uranium operating profits have declined steadily between 1979 and 1981, resulting from a depressed market for the product combined with escalating costs of labour and materials. Also contributing to the decline was the accelerated depreciation of the mining and milling facilities at Madawaska. In 1981, investment income showed an improvement over prior years primarily because of the accumulation of cash available for investment in short-term deposits and commercial paper having a high interest return.

Selected Financial Data and Comparison of Selected Data

	In Thousands except per share amounts Year ended December 31		
	1981	1980	1979
Selected Financial Data			
Net income	\$ 2,212	\$ 2,087	\$ 2,379
Per share	\$ 0.62	\$ 0.58	\$ 0.67
Dividends per share	—	—	—
At year end			
Total assets	\$14,545	\$12,647	\$11,204
Long-term obligations	NIL	NIL	\$ 439
Working capital	\$10,899	\$ 8,871	\$ 5,547
Shareholders' equity	\$13,506	\$11,294	\$ 9,207
Percentage of Lines of Business for each of the past two years as follows			
	1981	1980	
Mineral Operations	88%	84%	
Oil and Gas Interests	2%	2%	
Investment and Real Estate	10%	14%	
Price Range of Common Shares			
	1981	1980	
First Quarter	\$3.95 - 2.85	\$4.20 - 2.75	
Second Quarter	3.15 - 2.70	3.40 - 2.50	
Third Quarter	3.00 - 2.10	3.70 - 2.55	
Fourth Quarter	2.35 - 1.82	4.50 - 3.10	

Form 10-K Annual Report

Copies of the Corporation's Form 10-K Annual Report for 1981 to the United States Securities and Exchange Commission will be available to shareholders upon written request to The Secretary of the Corporation.

BALANCE SHEET AS AT DECEMBER 31, 1981 AND 1980

Assets

	1981	1980
CURRENT ASSETS		
Cash and short term deposits	\$ 8,624,000	\$ 6,952,000
Accounts receivable	2,142,000	1,263,000
Inventories (note 3)	1,119,000	1,864,000
Prepaid expenses	53,000	145,000
	<u>11,938,000</u>	<u>10,224,000</u>
INVESTMENTS (note 4)	1,639,000	1,069,000
FIXED ASSETS (note 5)	783,000	1,186,000
OIL AND GAS INTERESTS (notes 6 and 9)	164,000	137,000
MINERAL EXPLORATION INTERESTS	1,000	1,000
OTHER	20,000	30,000
	<u>\$14,545,000</u>	<u>\$12,647,000</u>

Liabilities

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 931,000	\$ 781,000
Mining and other taxes payable	108,000	572,000
	<u>1,039,000</u>	<u>1,353,000</u>

Shareholders' Equity

CAPITAL STOCK		
Authorized		
5,000,000 Shares of no par value		
Issued		
3,568,800 Shares	6,693,000	6,693,000
CONTRIBUTED SURPLUS	1,506,000	1,506,000
	<u>8,199,000</u>	<u>8,199,000</u>
RETAINED EARNINGS	5,307,000	3,095,000
	<u>13,506,000</u>	<u>11,294,000</u>
	<u>\$14,545,000</u>	<u>\$12,647,000</u>

Subsequent events (notes 2(b) and 9)

Approved by the Board

W. C. CAMPBELL, Director

J. C. LAMACRAFT, Director

STATEMENT OF INCOME

Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
Revenue			
Uranium concentrate sales	\$12,006,000	\$12,426,000	\$11,644,000
Oil and gas production	278,000	248,000	195,000
Gain (loss) on investments	(463,000)	862,000	45,000
Gain on disposal of mining interests	80,000	260,000	6,000
Interest and other income	1,597,000	594,000	438,000
	<u>13,498,000</u>	<u>14,390,000</u>	<u>12,328,000</u>
Expenses			
Mining and exploration	7,409,000	6,756,000	4,661,000
Milling	2,224,000	1,984,000	1,490,000
Oil and gas production	110,000	78,000	50,000
General and administrative	1,009,000	1,096,000	872,000
Interest	—	12,000	563,000
Ontario mining taxes	67,000	532,000	661,000
Depreciation, depletion and amortization	514,000	1,772,000	333,000
	<u>11,333,000</u>	<u>12,230,000</u>	<u>8,630,000</u>
Income before undernoted	2,165,000	2,160,000	3,698,000
Equity in earnings (losses) of companies subject to significant influence	47,000	31,000	(8,000)
Income from continuing operations before undernoted items	2,212,000	2,191,000	3,690,000
Income taxes (note 7)	1,285,000	1,380,000	1,323,000
Income from continuing operations before extraordinary item	927,000	811,000	2,367,000
Income from discontinued operations	—	647,000	12,000
Income before extraordinary item	927,000	1,458,000	2,379,000
Income tax reduction realized on application of resource expenditures of prior years (note 7)	1,285,000	629,000	—
NET INCOME	<u>\$ 2,212,000</u>	<u>\$ 2,087,000</u>	<u>\$ 2,379,000</u>
EARNINGS PER SHARE			
Continuing operations	\$0.26	\$0.23	\$0.67
Discontinued operations	—	0.18	—
Extraordinary item	0.36	0.17	—
Net income	<u>\$0.62</u>	<u>\$0.58</u>	<u>\$0.67</u>

STATEMENT OF RETAINED EARNINGS

Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	\$ 3,095,000	\$ 1,008,000	\$ (1,371,000)
Net income	2,212,000	2,087,000	2,379,000
RETAINED EARNINGS AT END OF YEAR	<u>\$ 5,307,000</u>	<u>\$ 3,095,000</u>	<u>\$ 1,008,000</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1981, 1980 and 1979

	1981	1980	1979
WORKING CAPITAL DERIVED FROM			
Operations	\$ 3,142,000	\$ 2,203,000	\$ 2,897,000
Proceeds from investments	31,000	995,000	278,000
Proceeds on disposal of oil and gas interests	—	275,000	—
Proceeds on disposal of revenue producing property, net of mortgages assumed and taken back	—	266,000	—
Issue of shares	—	—	27,000
	<u>3,173,000</u>	<u>3,739,000</u>	<u>3,202,000</u>
WORKING CAPITAL APPLIED TO			
Purchase of investments	1,017,000	195,000	28,000
Purchase of fixed assets	86,000	197,000	284,000
Oil and gas interests	42,000	23,000	420,000
Reduction in long-term debt	—	—	10,000
Purchase of annuity	—	—	50,000
	<u>1,145,000</u>	<u>415,000</u>	<u>792,000</u>
INCREASE IN WORKING CAPITAL	2,028,000	3,324,000	2,410,000
WORKING CAPITAL AT BEGINNING OF YEAR	8,871,000	5,547,000	3,137,000
WORKING CAPITAL AT END OF YEAR	<u>\$10,899,000</u>	<u>\$ 8,871,000</u>	<u>\$ 5,547,000</u>

AUDITORS' REPORT

To the Shareholders of
Consolidated Canadian Faraday Limited

We have examined the balance sheet of Consolidated Canadian Faraday Limited as at December 31, 1981 and 1980 and the statements of income, retained earnings and changes in financial position for the three years ended December 31, 1981. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for the three years ended December 31, 1981 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
April 27, 1982

THORNE RIDDELL
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1981, 1980 AND 1979

1. ACCOUNTING POLICIES

The Corporation's principal accounting policies are in accordance with generally accepted accounting principles in Canada and, except as disclosed in note 4(b), are also in all material respects in accordance with policies generally accepted in the United States. The significant accounting policies followed by the Corporation are summarized below:

(a) Basis of accounting

The financial statements include the accounts of the Corporation and its 49% interest in the Madawaska Mine which is reflected therein on the proportionate consolidation basis. The accounts for 1980 and 1979 are on a consolidated basis as they also include the financial position and results of operations of the Corporation's former subsidiaries.

(b) Long-term inter-corporate investments

(i) Companies subject to significant influence

The Corporation's investment in companies in which it has significant influence is accounted for on the basis of cost plus the Corporation's net equity in undistributed earnings in such companies since the date significant influence was acquired. The following are the principal companies accounted for on the equity method:

	Equity in Common Shares
Hydra Explorations Limited	24%
Prairie Potash Limited	38%

(ii) Other

Shares with a quoted market value are carried at the lower of cost and market value. Other shares are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of such investments, which may be more or less than indicated by market quotations. For the purpose of determining quoted market value for certain investments, escrowed shares are valued at 50% of the quoted market value of free shares.

(c) Inventories

Broken ore and concentrate in process are carried at the lower of cost, using the average cost method, and net realizable value. Finished concentrate is carried at cost on a specific identification method. Materials and supplies are carried at the lower of cost, using the average cost method, and replacement cost.

(d) Mineral exploration interests

Direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred.

(e) Mineral resource interests

The cost of acquisition of mineral interests which contain economic mineral reserves and the cost incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves, are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

(f) Oil and gas interests

The Corporation follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

Depletion of costs accumulated and depreciation of petroleum equipment are provided using the composite unit of production method based on total proven reserves of oil and gas.

(g) Fixed assets

Fixed assets are recorded at cost. Additions, renewals and betterments that add materially to productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Substantially all of the Corporation's fixed assets are related to its interest in the Madawaska Mine. These assets are being depreciated on a unit of production basis over the remaining estimated economic ore reserves.

Upon retirement, abandonment, or disposal of an asset, the asset and related allowance for depreciation amounts are eliminated. Any related gains and losses on such transactions are included in income.

(h) Foreign currency translation

Amounts in foreign currency have been translated into Canadian dollars on the following basis:

- (i) Current assets and current liabilities at the rate of exchange in effect as at the balance sheet date.
- (ii) Fixed assets, related depreciation and long-term receivables at historical rates.
- (iii) Revenues and expenses at the average rate of exchange in effect during the year.

Gains and losses on currency translation are included in income.

2. MADAWASKA MINE JOINT VENTURE

(a) Share of joint venture

The Corporation's share of the net assets and the results of operations of the Madawaska Mine, Bancroft, Ontario included in the accompanying financial statements on the proportionate consolidation basis, are summarized as follows:

	1981	1980	1979
Working capital	\$ 2,785,000	\$ 2,648,000	\$ 2,908,000
Fixed assets (net)	735,000	1,133,000	2,709,000
Oil and gas interests	—	—	275,000
Net equity	<u>\$ 3,520,000</u>	<u>\$ 3,781,000</u>	<u>\$ 5,892,000</u>
	1981	1980	1979
Revenue	\$12,102,000	\$12,426,000	\$11,644,000
Interest	—	12,000	563,000
Depreciation	484,000	1,750,000	313,000
Other expenses and mining taxes	9,933,000	9,793,000	6,926,000
	<u>10,417,000</u>	<u>11,555,000</u>	<u>7,802,000</u>
Income before income taxes	<u>\$ 1,685,000</u>	<u>\$ 871,000</u>	<u>\$ 3,842,000</u>

(b) Termination of sales contract

By agreement dated March 12, 1982 the Joint Venture's sales contract with AGIP Nucleare International Ltd., the principal purchaser of mine production, will be terminated effective June 30, 1982. AGIP has agreed to accept production up to a specified limit to June 30, 1982 and has agreed to the payment of moneys to the Joint Venture in consideration of execution of the termination agreement.

Management is continuing efforts to secure another purchaser for mine production, however, the present over-supply of uranium in the world market make prospects of achieving this objective difficult. In the event of an other than temporary suspension of mine operations, management is of the opinion that no material adjustment will be required to bring the Corporation's underlying equity in the Joint Venture to its estimated net realizable value.

3. INVENTORIES

	1981	1980
Finished concentrate	—	\$ 473,000
Concentrate in process	\$ 142,000	127,000
Broken ore	445,000	762,000
Materials and supplies	532,000	502,000
	<u>\$1,119,000</u>	<u>\$1,864,000</u>

4. INVESTMENTS

(a) Investments are comprised of the following:

	1981	1980
Companies subject to significant influence		
With quoted market value		
Hydra Explorations Limited (quoted market value \$460,000; 1980, \$2,108,000)	\$ 159,000	\$ 142,000
Without quoted market value	195,000	195,000
	<u>354,000</u>	<u>337,000</u>
Other		
Shares with a quoted market value		
(quoted market value \$446,000; 1980, \$68,000)	446,000	68,000
Shares without quoted market value	53,000	26,000
	<u>499,000</u>	<u>94,000</u>
Mortgages receivable		
10% Second mortgage, payable interest only quarterly, due September 23, 1985	627,000	627,000
Mortgage from a director, non-interest bearing, payable \$5,000 annually	150,000	—
Other	9,000	11,000
	<u>786,000</u>	<u>638,000</u>
	<u>\$1,639,000</u>	<u>\$1,069,000</u>

(b) Valuation allowance

The carrying value of other shares with a quoted market value has been decreased in 1981 by a valuation allowance of \$427,000 to reduce the carrying value of these investments to quoted market value. This provision has been included in loss on investments in the 1981 statement of income and, accordingly, has reduced net income as reported by a corresponding amount. Application of generally accepted accounting practice followed in the United States would have necessitated that this valuation allowance be shown as net unrealized losses in the shareholders' equity section of the 1981 balance sheet and not as a charge in the statement of income.

5. FIXED ASSETS

	1981	1980
Environmental land improvements	\$ 458,000	\$ 458,000
Buildings	648,000	648,000
Equipment	2,689,000	2,607,000
	<u>3,795,000</u>	<u>3,713,000</u>
Less accumulated depreciation	<u>3,064,000</u>	<u>2,579,000</u>
	731,000	1,134,000
Land	52,000	52,000
	<u>\$ 783,000</u>	<u>\$1,186,000</u>

6. OIL AND GAS INTERESTS

	1981	1980
Participation in drilling of wells on the Corporation's approximate 11% interest in certain natural gas leases in the Redcliffe area of south-eastern Alberta	\$ 217,000	\$ 175,000
Less accumulated depletion	53,000	38,000
	<u>\$ 164,000</u>	<u>\$ 137,000</u>

7. INCOME TAXES

The income taxes reflected in the statement of income are comprised of the following:

	1981	1980	1979
Provision for income taxes that would have been required if resource expenditures of prior years had not been available as deductions for tax purposes	\$1,285,000	\$ 629,000	—
Less income tax netted against income from discontinued operations	—	78,000	—
	—	551,000	—
Corporation's interest in income taxes recorded in the accounts of the former corporate joint venture, Madawaska Mines Limited	—	829,000	\$1,323,000
	<u>\$1,285,000</u>	<u>\$1,380,000</u>	<u>\$1,323,000</u>

8. RELATED PARTY TRANSACTIONS

Conwest Exploration Company Limited indirectly owns 34% of the Corporation and consequently many of the companies within the Conwest Group of companies are related parties. As part of normal business operations the Corporation makes extensive use of Conwest's management and technical services. The Corporation's share of the cost of such services amounted \$231,000 in 1981.

The Corporation participates, as to a 25% interest, in the exploration of certain non-hydrocarbon exploration prospects with members of the Conwest Group, at costs which are proportionate to its interest. During the year such costs amounted to \$57,000.

Federal Resources Corporation, 51% owner of the Madawaska Mine, provides certain accounting, data processing and management services in connection with the operations of the Madawaska Mine. The Corporation's share of the cost of such services amounted to \$125,000 in 1981.

9. CONWEST PETROLEUM CORPORATION

Effective January 1, 1982 the Corporation acquired a 25% interest in Conwest Petroleum Corporation, a company created for the purpose of acquiring all of the oil and gas interests of the Corporation, Conwest Exploration Company Limited and International Mogul Mines Limited, a 90% subsidiary of Conwest and the beneficial owner of 38% of the Corporation, for \$9,015,000. As part of the purchase, the Corporation sold its oil and gas interests and certain of its other related assets to Conwest Petroleum. These assets, which had a carrying value of \$249,000 at December 31, 1981, were sold for \$1,315,000. The balance of the purchase price was satisfied by a cash subscription of \$7,700,000. As consideration for this investment the Corporation received the following:

25% Interest in the shares of Conwest Petroleum represented by:	
25,000 Non-voting, redeemable preference shares with a par value of \$80 each ..	\$2,000,000
250,000 Common shares with a par value of \$10 each	6,925,000
	<u>8,925,000</u>
Liabilities of the Corporation assumed by Conwest Petroleum	12,000
Demand promissory note at bank prime + 1%, taken back from Conwest Petroleum	78,000
	<u>\$9,015,000</u>

Subsequent to the completion of the transaction, the Corporation owned 25% of Conwest Petroleum. The remaining 75% of Conwest Petroleum is owned by Conwest as to 10%, and International Mogul as to 65%, which interests were acquired by the respective companies in consideration of the transfer of their oil and gas interests, and certain of their other related assets.

